

Frequently Asked Questions

Purchased Service Credit

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What is the purchased service credit program?

Effective July 2006, the purchased service program will allow eligible members to purchase additional service credit in order to provide a lifetime increase to their monthly retirement benefit. Service credit purchased through this program is not membership service and cannot be used to qualify for retirement.

Who is eligible for the purchased service credit program?

Members who are eligible to receive a retirement benefit in the systems and plans listed below may purchase additional service credit as long as eligibility requirements are met.

- **PERS Plan 1, 2 and Plan 3**
- **SERS Plan 2 and Plan 3**
- **TRS Plan 1, 2 and Plan 3**
- **LEOFF Plan 1 and 2**
- **WSPRS Plan 1 and 2**
- **PSERS Plan 2**

I thought I had to retire early to purchase additional service credit. Has that changed?

Yes. Prior legislation was repealed that allowed eligible members of PERS Plan 2 and 3, SERS Plan 2 and 3, and TRS Plan 2 and 3 to purchase additional service credit only if they were retiring early, i.e., before becoming fully eligible for regular retirement at age 65. New legislation was passed in 2006 that allows members (in the above referenced systems and plans) to purchase service credit if eligible for early or regular retirement.

How much service credit can I purchase?

You may purchase up to five years of service credit in whole month increments.

How is the cost to purchase service credit determined?

To purchase additional service credit, the member must pay, in a lump sum, the actuarial equivalent value of the increased monthly retirement benefit provided by the additional service credit. Once the monthly value of the purchased service credit is determined, divide it by an annuity factor from the **table provided by the State Actuary**. The following example illustrates how this would work. *

Dorothy is a PERS Plan 2 member who is 60 years of age, has 22 years (264 months) of service credit and qualifies for early retirement. Her average final compensation (AFC) is \$3,000 per month. Her early retirement reduction factor (ERF) is 0.6100. She wants to purchase 5 years (60 months) of additional service credit.

Step one: Calculate Dorothy's monthly retirement benefit without the additional service credit. The formula is:

Months of Service/12 x 2% x AFC x ERF = monthly benefit.

For Dorothy, this means:

$$264/12 \times 2\% \times \$3,000 \times 0.6100 = \$805.20$$

Step Two: Calculate the monthly amount provided by the additional service credit.

$$60/12 \times 2\% \times \$3,000 \times 0.6100 = \$183.00$$

Dorothy's total monthly retirement benefit with the purchased additional service credit would be:
 $\$805.20 + \$183.00 = \$988.20$

To determine the cost, divide the monthly benefit provided by the annuity factor for Dorothy's age. The cost for Dorothy to purchase 5 years (60 months) of service credit would be \$28,612.08 calculated as follows:

$$\$183 \div 0.0063959 = \$28,612.08$$

* The annuity factors are age and system/plan based and taken from a 1995-2000 actuarial experience study.

How can I determine what my cost and benefit might be?

The purchasing service online calculator in DRS'- Online Account Access – is available to determine the cost and the increased benefit amount of purchasing additional service credit with the rules established in the 2004 and 2005 legislation. The purchasing service online calculator will be modified to include the new systems and plans and rules by the end of May 2006.

Can I use the additional service credit I purchase to qualify for the three percent reduction instead of the actuarial reduction to my retirement benefit?

No. You must have 30 years of *earned* membership service credit to qualify for the three percent early retirement reduction.

Will Cost of Living Adjustments (COLA) be applied to the PSC monthly increase? The COLA will be applied to the monthly PSC increase if you retire from any system and plan except PERS Plan 1 or TRS Plan 1. If you retire from PERS Plan 1 or TRS Plan 1, you will only receive a COLA if you select the COLA option at the time you retire.

Can I purchase additional service credit if I'm retiring from a retirement plan that does not allow me to receive a monthly retirement benefit that exceeds 60% (or 75%) of my average final compensation?

Yes. The 60% (75%) maximum applies only to your monthly retirement benefit. The purchase of additional service credit will provide you an additional amount that will be added to your monthly retirement benefit.

When can I apply?

You must apply for the purchased service credit at the time you apply for retirement. The application must be in writing on a form supplied by the Department of Retirement Systems.

If I am an inactive member and am eligible for retirement before July 1, 2006, can I purchase service credit if I wait to retire until the legislation takes effect on July 1, 2006?

Yes. If you otherwise qualify, you may purchase service credit with a retirement application received on or after July 1, 2006 even if your retirement date is before July 1, 2006.

When do I pay for the purchased service credit?

If you have made a request to purchase additional service credit, a bill will be created in your month of retirement. Payment must be made in full within 90 days.

How do I pay?

Payment may be made with an eligible rollover, a direct rollover or a trustee-to-trustee transfer from an eligible retirement plan. You may also use after-tax dollars, such as those from a personal savings account. IRS regulations, however, limit the amount of after-tax dollars you can use for this type of purchase. Please consult a tax advisor for more information regarding IRS limitations.

Will the money I use to purchase the service credit be credited to my retirement system account?

If you are a Plan 1 or Plan 2 retiree, the money will go into your account and will be used to pay the monthly benefit.

If you are a Plan 3 retiree, the money will go directly into the Plan 3 trust fund. It will not be credited to your individual account.

Will the money I paid to purchase the additional service credit be refunded to my beneficiary or estate if I die?

This depends on whether you are a Plan 1 or 2 retiree or a Plan 3 retiree and whether you selected a survivor to receive a continuing monthly benefit. If you selected a survivor to continue to receive all or a portion of your monthly retirement benefit, no refund will be made.

If you do not select a survivor option and you are a Plan 1 or 2 retiree and there is any money in your account to be refunded, the cost to purchase additional service credit will be included in the refund amount. If you do not select a survivor option and you are a Plan 3 retiree, the cost to purchase the additional service credit will not be refunded because the payment you made to purchase goes into the Plan 3 trust fund and not into your individual account.

May I purchase service credit from more than one DRS covered retirement system?

If you have combined service credit in order to retire from two retirement plans, and you meet the requirements of dual membership, you may purchase up to sixty months of additional service credit from each plan. Information about dual membership is described in the brochure, *What is Dual Membership and How Does It Affect Me?* available on the DRS Web site at www.drs.wa.gov or by contacting DRS.

If you retire from more than one plan, but you do not meet the requirements for dual membership, you may purchase up to sixty months of additional service credit from each plan in which you meet the retirement eligibility requirements. Retirement eligibility requirements are detailed in the member handbooks for each retirement plan.

Member handbooks are available on the DRS Web site at www.drs.wa.gov, or by contacting your employer or DRS. Additional details regarding dual membership may be found in chapter 415-113 of the Washington Administrative Code.

Is there a way to determine if this purchase is beneficial for me based on age, years of service, planned retirement date, or other factors?

There is no single program or product to provide this information. A calculator is now available on our Web site that you can use, or if you are within 2 years of retirement you may contact a Retirement Services Analyst at DRS to obtain an estimate of the cost of the additional service credit and the monthly amount it would provide. We also recommend that you discuss this option with your financial advisor to determine if this purchase will be beneficial for you. Consider your overall financial situation and retirement needs very carefully before making this decision. Your election to purchase additional retirement service credit is irrevocable.

More Information?

More information regarding purchasing service credit will be posted periodically to the DRS Web site. You may request an estimate of the cost of purchasing additional service credit by contacting a Retirement Services Analyst at DRS, if you are within 2 years of retirement. Keep in mind, however, that DRS cannot offer advice concerning purchasing additional service credit.

For more information **contact DRS.**